

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOT-00 INR-07 NSAE-00 FAA-00 FEA-01 OMB-01 TRSE-00

SS-15 NSC-05 /046 W

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R 040215Z FEB 76

FM AMCONSUL MELBOURNE

TO SECSTATE WASHDC 3206

INFO AMEMBASSY CANBERRA

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E O 11652 N A

TAGS EAIR, AS

SUBJ: CIVAIR: AVIATION FUEL PRICE

REF STATE 23298

1. USDEL CHAIRMAN STYLES DISCUSSED AVIATION FUEL PRICE QUESTION PRIVATELY WITH JOHN TAPLIN, DEPUTY SECRETARY, DOT. HE WAS PRIVATELY IN FULL SYMPATHY WITH US VIEWS AND FELT THAT AUSTRALIAN POLICY WAS MISGUIDED, BUT HE ALSO GAVE US NO ENCOURAGEMENT THAT POLICY WOULD BE CHANGED BY NEW GOVT.

2. IN DISCUSSING MATTER WITH TAPLIN AND OTHER DOT OFFICIALS, WE TRIED FIND OUT RATIONALE BEHIND POLICY AND CAME TO CONCLUSION IT MUST BE BASED LARGELY ON EMOTIONAL ELEMENTS BECAUSE NONE OF ECONOMIC ARGUMENTS WHICH WERE MENTIONED TO US SEEM TO BE VALID. FOR EXAMPLE:

A. ORIGINAL RATIONALE WAS THAT AIRLINES WERE GASSING UP IN AUSTRALIA WITH CHEAP AVIATION FUEL. HOWEVER, EXCEPT FOR A FEW SHORT HAUL ROUTES OUT OF AUSTRALIA, THIS POSSIBILITY IS EXTREMELY LIMITED.

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B. ANOTHER NOTION IS THAT GOVT WOULD RECEIVE ADDITIONAL TAX REVENUES FROM OIL COMPANIES DUE TO ADDITIONAL AMOUNTS THEY RECEIVE FROM AIRLINES. ADDITIONAL GOVT REVENUES WOULD BE VERY SMALL, HOWEVER.

C. BECAUSE OIL COMPANIES WOULD RECEIVE NEW WINDFALL REVENUES. GOA COULD THROUGH ITS PRICE CONTROLS FORCE REDUCTION IN PRICE OF PETROLEUM PRODUCTS CONSUMED DOMESTICALLY, SUCH AS AUTOMOBILE GASOLINE. DOT OFFICIALS SAID THAT PRICE REDUCTION OF GASOLINE COULD ONLY BE A FEW CENTS OR EVEN A FRACTION OF A CENT.

3. IN DISCUSSING MATTER, WE URGED THAT DISTINCTION BE DRAWN BETWEEN FUEL EXPORTS AND FUEL SUPPLIED TO AIRCRAFT FOR CONSUMPTION IN FLIGHT AND NOTED THAT LATTER NEED NOT BE VIEWED AS EXPORTS. WE ALSO SAID THAT, IF A HIGHER PRICE WERE FIXED FOR NON-SCHEDULED AIRLINES THAN SCHEDULED AIRLINES, A DISCRIMINATORY ELEMENT WOULD ARISE. WHEN DOT OFFICIALS SAID THAT SUCH A DIFFERENTIAL WOULD ONLY REFLECT NORMAL MARKET CONDITIONS, WHERE VOLUME PURCHASERS PAY A LOWER PRICE, WE POINTED OUT THAT IT SURELY WAS NOT POSSIBLE FOR GOVT TO SUBSTITUTE ITSELF FOR THE FREE PLAY OF MARKET FORCES. DOT OFFICIALS AGREED BUT SAID THAT, ONCE GOVT DECIDED TO INTERVENE BY FIXING A BASE WORLD PARITY PRICE, IT WOULD HAVE TO INTERVENE ALL THE WAY TO REFLECT VOLUME CONSIDERATIONS.

4. IN LIGHT FOREGOING, IT MAY BE DESIRABLE FOR EMBASSY CANBERRA EVENTUALLY TO DELIVER AIDE MEMOIRE. HOWEVER, USDEL WISHES REVIEW MATTER ON RETURN WASHINGTON BEFORE SUGGESTING FURTHER FOLLOW-UP ACTION.

5. PANAM COURT CASE, WHICH CHALLENGES GOA AUTHORITY TO FIX PRICE FOR AVIATION FUEL, WILL PROBABLY BE HEARD IN NEXT THREE OR FOUR LIMITED OFFICIAL USE

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WEEKS. IN MEANTIME, VIRTUALLY ALL AIRLINES ARE NOT PAYING THE HIGHER FIXED PRICE. HOWEVER, IF PANAM WINS COURT CASE, GOVT CAN PRESUMABLY STILL ENFORCE FIXED PRICES IF IT WANTS TO BY NEW LEGISLATION.
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